

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF DEMA GAS	)	
COMPANY, INC. FOR A RATE ADJUSTMENT	)	
PURSUANT TO THE ALTERNATIVE RATE	)	CASE NO. 91-230
FILING PROCEDURE FOR SMALL	)	
UTILITIES	)	

O R D E R

On July 16, 1991, Dema Gas Company, Inc. ("Dema") filed its application for Commission approval of a proposed increase in its rates for gas service. Commission staff, having performed a limited financial review of Dema's operations, has prepared the attached staff report containing staff's findings and recommendations regarding Dema's proposed rates. All parties should review the report carefully and provide any written comments or requests for a hearing or informal conference no later than 15 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have 15 days from the date of this Order to provide written comments regarding the attached staff report or requests for a hearing or informal conference. If no request for a hearing or informal conference is received, then this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky this

19th day of December, 1991.

PUBLIC SERVICE COMMISSION

  
For the Commission

ATTEST:

  
Executive Director

COMMONWEALTH OF KENTUCKY

RECEIVED

BEFORE THE PUBLIC SERVICE COMMISSION

DEC 18 1991

PUBLIC SERVICE  
COMMISSION

In the Matter of:

THE APPLICATION OF DEMA GAS	)	
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PURSUANT TO THE ALTERNATIVE RATE	)	CASE NO. 91-230
FILING PROCEDURE FOR SMALL	)	
UTILITIES	)	

STAFF REPORT

December 17, 1991

Prepared By: Tammy Cheatham  
Public Utility Financial  
Analyst  
Gas and Electric Revenue  
Requirements Branch  
Rates and Tariffs Division

Prepared By: Joan Carroll  
Public Utility Rate  
Analyst, Chief  
Gas and Electric Rate  
Design Branch  
Research Division



COMMONWEALTH OF KENTUCKY  
**PUBLIC SERVICE COMMISSION**  
730 SCHENKEL LANE  
POST OFFICE BOX 615  
FRANKFORT, KY. 40602  
(502) 564-3940

August 21, 1991

To The Kentucky Public Service Commission

We have reviewed the accompanying balance sheet of Dema Gas Company, Inc. as of December 31, 1990, and the related income statement and statement of retained earnings for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Dema Gas Company, Inc.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, with the exception of the matters described in the following paragraph, we are not aware of material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The Company, in compliance with the reporting requirements of the Kentucky Public Service Commission, is not required to prepare a statement of cash flows. The statement, therefore, has been omitted. Presentation of such statement summarizing the Company's financing and investing activities and other changes in its financial position is required by generally accepted accounting principles.

Rates and Tariffs Division

Dema Gas Company, Inc.  
Balance Sheet  
December 31, 1990

**\*\*Assets\*\***

Utility Plant:

Gas Plant in Service	\$37,510
Plus: Gas Plant Acquisition Adjustment	3,479
Less: Accumulated Provision for Depreciation, Depletion and Amortization	<u>3,582</u>
Net Utility Plant	<u>37,407</u>

Current Assets:

Cash	739
Customer Accounts Receivable	<u>4,345</u>
Total Current Assets	<u>5,084</u>

Total Assets \$42,491

**\*\*Liabilities and Other Credits\*\***

Proprietary Capital:

Common Stock	\$ 6,000
Unappropriated Retained Earnings	<u>&lt;30,273&gt;</u>
Total Proprietary Capital	<u>&lt;24,273&gt;</u>

Current and Accrued Liabilities

Notes Payable	32,000
Accounts Payable	30,043
Customer Deposits	100
Accrued Interest	4,468
Other	<u>153</u>
Total Current and Accrued Liabilities	<u>66,764</u>
Total Liabilities and Other Credits	<u><u>\$42,491</u></u>

See accompanying notes and accountant's report.

Dema Gas Company, Inc.  
Income Statement  
For the Year Ended December 31, 1990

Operating Revenues:

Gas Sales	\$ 15,168
Penalties	-0-
Other	25
Total Operating Revenues	<u>15,193</u>

Operating Expenses:

Gas Supply Expenses: Purchased Gas	<u>10,629</u>
Distribution Expenses	<u>1,800</u>
Customer Accounts Expenses:	
Meter Reading Labor	1,800
Accounting and Collecting Labor	1,800
Supplies and Expenses	87
Total Customer Accounts Expense	<u>3,687</u>
Administrative and General Expenses:	
Administrative and General Salaries	1,800
Office Supplies and Expenses	680
Outside Services Employed	859
Rents	36
Total Administrative and General Expense	<u>3,375</u>
Total Operations and Maintenance Expense	19,491
Depreciation Expense	1,363
Amortization Expense	145
Taxes Other than Income Taxes	516
Total Operating Expenses	<u>21,515</u>
Net Operating Income <Loss>	<u>&lt;6,322&gt;</u>
Other Deductions:	
Interest Expense	7,877
Total Other Deductions	<u>7,877</u>
Net Income <Loss>	<u>\$&lt;14,199&gt;</u>

See accompanying notes and accountant's report.

Dema Gas Company, Inc.  
Statement of Retained Earnings  
For the Year Ended December 31, 1990

Retained Earnings at Beginning of Year	\$<16,074>
Loss from Operations	<u>&lt;14,199&gt;</u>
Retained Earnings End of Year	<u>\$&lt;30,273&gt;</u>

See accompanying notes and accountant's report.

**Dema Gas Company, Inc.**  
**Notes to Financial Statements**

**NOTE 1: Significant Accounting Policies**

**Regulation Requirements.** The financial statements at December 31, 1990 are reported in accordance with the Uniform System of Accounts Prescribed for Natural Gas Companies ("USoA"), Financial Accounting Standards Board Statement No. 71, "Accounting for the Effects of Certain Types of Regulation", and other Kentucky Public Service Commission ("PSC") prescribed policies and regulations.

**Utility Plant.** Utility plant is stated at original cost. The cost of repairs and maintenance is charged to the proper expense account as incurred. Property replacements and significant improvements are capitalized and retirements are charged to the proper plant account and depreciation provision.

**Depreciation.** Depreciation is applied on the straight-line method over the estimated useful life of the asset.

**Purchased Gas Cost.** Gas purchases are charged to expense as delivered to the distribution system. Purchased gas adjustments, prescribed by the PSC, pass fluctuations in the price of wholesale gas through the Company to the customers.

**Gas Plant Acquisition Adjustment.** As detailed in Appendix B of the accompanying Staff Report, the Company recorded an acquisition adjustment on the transfer of Right Beaver Gas Company on April 27, 1989.

**Retained Earnings.** Due to the complexities and problems with the books of the Company, Retained Earnings was derived by verifying all other account balances for 1990 and netting them to arrive at the Retained Earnings' beginning balance.

**NOTE 2: Corrections of Errors**

Errors resulting from the incorrect plant account values, accumulated depreciation, acquisition adjustment, depreciation and amortization expense and retained earnings were corrected by proper entries to the accounts.

STAFF REPORT  
ON  
DEMA GAS COMPANY, INC.  
CASE NO. 91-230

A. Preface

On July 16, 1991, Dema Gas Company, Inc. ("Dema") filed an application for a rate adjustment pursuant to 807 KAR 5:076, the Alternative Rate Filing Procedure for small utilities ("ARF"). The rates proposed by Dema would generate approximately \$16,170 or approximately 114.205 percent in additional annual revenues based on normalized test-year sales.

As part of its endeavor to shorten and simplify the regulatory process for utilities, the Commission chose to perform a financial review of Dema's operation for the test period, the 12-month period ending December 31, 1990. Tammy Cheatham and Gary Forman of the Commission's Rates and Tariffs Division conducted a financial review on August 21, 1991 at the offices of Dema, in Prestonsburg, Kentucky. This report was prepared by Ms. Cheatham, with the exception of sections dealing with Normalized Revenues and Required Rates, which were prepared by Joan Carroll of the Commission's Research Division.

The review was conducted in accordance with standards established by the American Institute of Certified Public Accountants ("AICPA") and included analysis of financial data and inquiries of Dema's personnel. The review was expanded to gather

information to evaluate pro forma adjustments proposed in Dema's filing and to obtain information for purposes of developing Staff adjustments.

B. Test-Year Restatements

Review Summary

The records supporting the financial statements contained in Dema's application were the primary financial documents analyzed in this review. The account classifications used by Dema to record its transactions and compile its financial statements are generally in conformity with the Uniform System of Accounts ("USoA") for gas utilities. Staff has adopted the financial statements supplied by Dema for the year ended December 31, 1990 as the test period for rate-making purposes with the following modifications:

Gas Plant in Service

During Staff's review of the plant accounts of Dema, certain errors were found. First, included in the transfer of utility plant, Case No. 89-100<sup>1</sup> from Right Beaver Gas Company, ("Right Beaver") was \$7,700 of Meter Installation. During the field review, Mr. Stephen Allen, Dema's manager, stated that this amount should have been taken off the books, but never was.

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<sup>1</sup> A Joint Application of Right Beaver Gas company and Dema Gas Company, Inc. to Approve the Sale of Right Beaver Gas Company and Purchase of Same by Dema Gas Company, Inc., Order dated July 7, 1989.

Staff recommends that the following entries be made to record the retirement of the portion of the utility plant which is no longer in service.

Acct.  
No.

108	Accumulated Depreciation	\$7,700	
101	Utility Plant		\$7,700
182.1	Extraordinary Retirement	\$5,551	
108	Accumulated Depreciation		\$5,551
216	Retained Earnings	\$5,551	
182.1	Extraordinary Retirement		\$5,551

Accumulated depreciation, as is shown in Appendix A, is based on the balance which should have been accumulated through July 31, 1989.

In accordance with Generally Accepted Accounting Principles ("GAAP"), prior period items, such as the above loss on retirement of assets, should be debited to Retained Earnings or under the USOA charged to extraordinary retirements. Since there will be no benefit to future periods, Staff recommends that \$5,551 be considered a prior period adjustment and charged to retained earnings.

#### Accumulated Depreciation

During Staff's review, it was discovered that there was no accumulated depreciation recorded on the books of Right Beaver when the transfer to Dema took place. Staff calculated the level of accumulated depreciation that should have been recorded on the plant which was transferred. This resulted in \$3,253 of accumulated depreciation on April 30, 1989. The previous adjustment in this report retired a portion of the utility plant

that was no longer in service at the time of the transfer. The net effect of these two entries reduced accumulated depreciation by \$2,149 to reflect the booking of these adjustments on July 31, 1989.

The Accumulated Provision for Depreciation account should reflect a balance at December 31, 1990 of \$3,340, as shown in Appendix A, before any modifications are made to reflect the appropriate level of amortization related to the corrected plant acquisition adjustment. Staff has adjusted the Balance Sheet to reflect this total.

#### Depreciation Expense

Due to errors in the utility plant and accumulated depreciation accounts as were detailed in the preceding section of this report, the test-year depreciation expense was also incorrect. Appendix A provides the details of Staff's analysis of accumulated depreciation including the appropriate accrual for the test period. As a result of Staff's analysis, test-year actual depreciation expense has been restated at \$1,363, which is a reduction of \$393 to the amount recorded by Dema on the Income Statement. This adjustment has been included on Staff's restated Income Statement.

#### Gas Plant Acquisition Adjustment

Dema stated it acquired Accounts Receivable, net of bad debts as collected and remitted to Dema by Mr. Mabry Holbrook. The entry to record these accounts receivable was \$3,600.

As a result of previously cited errors in the original entries at the time of the transfer of the company from Right

Beaver to Dema, the Gas Plant Acquisition Adjustment account was not properly recorded in accordance with Instruction No. 5 of the USoA's Gas Plant Instructions. The USoA requires that Dema record the purchased plant at its original cost and the accumulated depreciation as of the date of transfer. The acquisition adjustment of \$3,077.28 submitted by Dema in Case No. 89-100 is incorrect due to the absence of the transfer of the accumulated depreciation amount. After determining the proper level of accumulated depreciation, and recording the accounts receivable of \$3,600, the resulting amount is the amount that should be recorded as a plant acquisition adjustment. These entries result in a plant acquisition adjustment of \$3,479. Staff recommends that the acquisition adjustment be amortized over the average remaining service life of the purchased utility plant, which is approximately 24 years. Accordingly, Staff has debited \$97 to Retained Earnings and has credited Accumulated Provision for Depreciation, Amortization and Depletion by the same amount to arrive at the balance that should have been recorded during the 8-month period from the date of the transfer to December 31, 1989. Staff then computed the amount that should have been recorded during the 1990 test year and has debited Account No. 406, Amortization of gas plant acquisition adjustments, \$145. The inclusion of the annual amortization of \$145 for 1990 results in a restated balance of the Accumulated Provision for Depreciation and Amortization of \$3,582 for the test year ended December 31, 1990.

Retained Earnings

As a result of the adjustments made to the Gas Plant in Service, Accumulated Depreciation and Gas Plant Acquisition Adjustment accounts, as well as changes in Depreciation Expense and Amortization Expense, Retained Earnings has been adjusted to reflect the corrected balance. Of the adjusted total Proprietary Capital of (\$24,273), \$14,199 relates to the Net Loss incurred by Dema in 1990.<sup>2</sup> The balance, \$10,074, reflects various prior period adjustments including the 1989 results of operation for Dema's eight months of operation during that year.

These adjustments result in the following restated test-year Financial Statements:

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<sup>2</sup> This loss reflects Staff's test-year restatements of depreciation and amortization expenses.

Dema Gas Company, Inc.  
Balance Sheet  
For the Year Ended 12/31/90

	<u>Per Annual Report</u>	<u>Staff Adjustments</u>	<u>Staff Restated Test-Year</u>
<b>**Assets**</b>			
Utility Plant:			
Gas Plant in Service	\$ 45,210	\$ (7,700)	\$ 37,510
Plus: Gas Plant Acquisition Adjustment	226	3,253	3,479
Less: Accumulated Provision for Depre- ciation, Depletion and Amortization	<u>2,794</u>	<u>788</u>	<u>3,582</u>
Net Utility Plant	<u>42,642</u>	<u>(5,235)</u>	<u>37,407</u>
Current Assets:			
Cash	739	0	739
Customer Accounts Receivable	<u>4,345</u>	<u>0</u>	<u>4,345</u>
Total Current Assets	<u>5,084</u>	<u>0</u>	<u>5,084</u>
Total Assets	<u>\$ 47,726</u>	<u>\$ (5,235)</u>	<u>\$ 42,491</u>
<b>**Liabilities and Other Credits**</b>			
Proprietary Capital			
Common Stock	\$ 6,000	\$ 0	\$ 6,000
Unappropriated Retained Earnings	<u>(25,038)</u>	<u>(5,235)</u>	<u>(30,273)</u>
Total Proprietary Capital	<u>(19,038)</u>	<u>(5,235)</u>	<u>(24,273)</u>
Current and Accrued Liabilities:			
Notes Payable	32,000	0	32,000
Accounts Payable	30,043	0	30,043
Customer Deposits	100	0	100
Accrued Interest	4,468	0	4,468
Other	<u>153</u>	<u>0</u>	<u>153</u>
Total Current and Accrued Liabilities	<u>66,764</u>	<u>0</u>	<u>66,764</u>
Total Liabilities and Other Credits	<u>\$ 47,726</u>	<u>\$ (5,235)</u>	<u>\$ 42,491</u>

Dema Gas Company, Inc.  
Income Statement  
For the Year Ended 12/31/90

<u>Accounts</u>	<u>Test-Year End Balances 12/31/90</u>	<u>Staff Test-Year Adjustments</u>	<u>Staff Restated Test-Year</u>
<b>Operating Revenues:</b>			
Gas Sales	\$ 15,168	-0-	\$ 15,168
Other Income	25	-0-	25
Total Revenues	<u>\$ 15,193</u>	<u>\$ -0-</u>	<u>\$ 15,193</u>
<b>Operating Expenses:</b>			
Natural Gas Purchases	\$ 10,629	\$ -0-	\$ 10,629
Service Labor	1,800	-0-	1,800
Meter Reading Labor	1,800	-0-	1,800
Accounting & Collecting Labor	1,800	-0-	1,800
Accounts Supplies & Expenses	87	-0-	87
Administrative & General Salaries	1,800	-0-	1,800
Office Supplies & Expenses	680	-0-	680
Outside Service Employed	859	-0-	859
Miscellaneous General Expenses	36	-0-	36
Total Operating & Maintenance Expense	<u>\$ 19,491</u>	<u>\$ -0-</u>	<u>\$ 19,491</u>
Depreciation Expense	1,756	(393)	1,363
Amortization Expense	-0-	145	145
Taxes Other than Income Taxes	516	-0-	516
Total Operating Expenses	<u>\$ 21,763</u>	<u>\$ (248)</u>	<u>\$ 21,515</u>
Net Operating Income	<u>\$ (6,570)</u>	<u>\$ 248</u>	<u>\$ (6,322)</u>
<b>Other Deductions:</b>			
Interest Expense	7,877	-0-	7,877
Extraordinary Loss	-0-	-0-	-0-
Net Income	<u>\$ (14,447)</u>	<u>\$ 248</u>	<u>\$ (14,199)</u>

### C. Recommended Rate-Making Adjustments

#### Normalized Revenues from Sales

Dema proposed normalized revenues from gas sales of \$14,160 based on a sales volume of 3,266 Mcf. Staff accepts Dema's proposed gas sales based upon the billing analysis provided by Dema.

#### Penalties and Service Charges

Dema proposed normalized penalty and service charge revenues of \$539 and \$90, respectively. Staff accepts these revenues as proposed by Dema based upon the data filed by Dema.

#### Natural Gas Purchases

Dema reported natural gas purchases of \$10,629 for the test year. Dema proposed natural gas purchases of \$9,602 in its application. In response to question number 5 of the Commission's Order dated September 11, 1990, Dema revised its proposed purchases to \$10,213, based on 3,472 Mcf at a rate of \$2.9414/Mcf. The proposed gas purchases reflect a line loss of 5.9 percent. The Commission has historically allowed actual line loss up to a maximum of 5 percent for rate-making purposes. Therefore, natural gas purchases are adjusted to 5 percent line loss as follows:

$$\frac{3,266 \text{ Mcf}}{.95} = 3,438$$

The cost of purchases is then computed using the cost of gas from Case No. 89-100-E. This adjustment yields a total cost of \$10,113. Therefore, Staff recommends a decrease from test-year purchases in the amount of \$516.

#### Purchased Gas Adjustment Clause

Staff recommends that the latest purchased gas adjustments approved by the Commission prior to the issuance of the final Order in this case should be incorporated into normalized revenues and natural gas purchases.

#### Amortization Expense

In determining the amortization expense on the gas plant acquisition adjustment, Dema could not provide evidence that the acquisition adjustment resulted in benefits to the ratepayers. In addition, Staff could not determine the benefits. Therefore, Staff recommends that amortization expense be excluded for rate-making purposes. Staff has reclassified the amortization of this adjustment from Account No. 406, Amortization of Gas Plant Acquisition Adjustments to Account No. 425, Miscellaneous Amortization.

#### Property Insurance

Dema initially proposed a projected liability insurance cost of \$750 based on an estimated proposal from the Century Surety Company. During the review process, it was revealed that the actual premium would be \$1,064. Based on this information, Staff recommends that \$1,064 be included for rate-making purposes.

#### Rate Case Expenses

Dema did not propose an adjustment for rate case expense in its application. In its response to the data request dated July 25, 1991, Dema stated the total costs for this case would be hard to estimate at that time due to not knowing whether a hearing and

an attorney would be necessary, plus the unknown amount of time required to respond to staff requests for information.

Dema did identify, in its response, accounting expenses, for May 1991, of \$771, and June 1991, of \$933. Staff's review of the invoices indicates that \$396 of the accounting expenses are related to the PGA filing in Case No. 89-100 which should not be included in determining the level of rate case expense to be amortized. As a result, rate case expenses of \$1,308 should be amortized over 3 years which results in an annual expense of \$436 for rate-making purposes.

#### Interest Expense

Dema did not propose any adjustments to interest expense. Concerning the loan agreement which relates to the First Guaranty National Bank ("First Guaranty") loan of \$30,000, Dema's interest rate is set at the prime rate plus 1 percent. The average annual prime rate charged by banks on short-term business loans for test-year 1990 is 10.01 percent. This was reported by the United States Department of Commerce in an October 1991 Survey of Current Business.<sup>3</sup> This annual rate plus 1 percent results in interest expense of \$3,303. Dema reported interest expense in its 1990 annual report of \$3,703 for this loan. Based on this information, Staff recommends that \$400 of interest expense be excluded for rate-making purposes. This results in total interest expense of \$7,477.

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<sup>3</sup> "Survey of Current Business", United States Department of Commerce, October 1991, Volumn 71, Number 10, page S-14.

Based on the recommendations proposed in this Staff Report,  
Dema's adjusted operations are as follows:

<u>Accounts</u>	<u>Staff Restated Test-Year</u>	<u>Staff Proposed Adjustments</u>	<u>Staff Adjusted Balances</u>
<b>Operating Revenues:</b>			
Gas Sales	\$ 15,168	\$ (1,008)	\$ 14,160
Penalties	-0-	539	539
Service Charges	-0-	90	90
Other Income	25	-0-	25
Total Revenues	<u>\$ 15,193</u>	<u>\$ (379)</u>	<u>\$ 14,814</u>
<b>Operating Expenses:</b>			
Natural Gas Purchases	\$ 10,629	\$ (516)	\$ 10,113
Service Labor	1,800	-0-	1,800
Meter Reading Labor	1,800	-0-	1,800
Accounting & Collecting Labor	1,800	-0-	1,800
Accounts Supplies & Expenses	87	-0-	87
Administrative & General Salaries	1,800	-0-	1,800
Office Supplies & Expenses	680	-0-	680
Outside Services Employed	859	-0-	859
Miscellaneous General Expenses	36	-0-	36
Insurance Expense	-0-	1,064	1,064
Regulatory Commission Expense	-0-	436	436
Total Operating & Maintenance Expense	<u>\$ 19,491</u>	<u>\$ 984</u>	<u>\$ 20,475</u>
Depreciation Expense	1,363	-0-	1,363
Amortization Expense	-0-	-0-	-0-
Taxes Other than Income Taxes	516	-0-	516
Total Income Taxes- Utility Operations	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Operating Expenses	<u>\$ 21,370</u>	<u>\$ 984</u>	<u>\$ 22,354</u>
Net Operating Income	<u>\$ (6,177)</u>	<u>\$ (1,363)</u>	<u>\$ (7,540)</u>
<b>Other Deductions:</b>			
Interest Expense	7,877	400	7,477
Miscellaneous Amortization	<u>145</u>	<u>-0-</u>	<u>145</u>
Net Income	<u>\$ (14,199)</u>	<u>\$ ( 963)</u>	<u>\$ (15,162)</u>

#### D. Revenue Requirements

Dema proposed in its application that its revenue requirements be based upon an 88 percent "Operating Ratio Method" which resulted in a proposed increase of \$16,170. The operating ratio method is used primarily when there is no sound basis for a rate of return determination using the required return on capital and/or rate base method. In order for the rate of return on equity to be conceptually valid, capitalization must be closely supported by rate base. Dema's proprietary capital consists of common stock of \$6,000 and unappropriated retained earnings of \$(30,273) which results in total proprietary capital of \$(24,273). Therefore, Staff concurs with the use of the operating ratio to determine revenue requirements.

Applying the 88 percent operating ratio to the Staff adjusted operating expenses, less purchased gas expense, results in a total revenue requirement of \$31,500 which will require an increase in annual revenues of \$16,686 before adjustments for the Public Service Commission assessment. Dema did not propose an adjustment for the annual assessment, however, Staff has calculated this expense by applying the 1991 assessment rate of .001516 to the recommended increase of \$16,686 and determined that an additional \$25 of expense should be recorded in Taxes Other than Income Taxes.

This additional adjustment results in a total recommended revenue increase of \$16,711. This increase should allow Dema to meet its operating expenses, and provide for reasonable equity

growth. Therefore, Staff recommends an increase in operating revenue of \$16,711.

The calculation of the total increase is shown below:

Total Operating Expenses	\$22,354
Less: Purchased Gas	<u>10,113</u>
Subtotal	12,241
Operating Ratio	<u>.88</u>
Subtotal	13,910
Add: Purchased Gas	10,113
Interest Expense	<u>7,477</u>
Revenue Requirement	31,500
Normalized Revenues	<u>14,814</u>
Subtotal	16,686
Additional PSC Assessment	25
Increase Required	<u>\$16,711</u>

#### Rate Design

Staff recommends approval of Dema's proposed rates and charges as follows:

- a. 10 percent late-payment penalty.
- b. \$35 reconnection fee for nonpayment.
- c. \$50 reconnection fee for reestablishing service.
- d. \$25 transfer service charge.
- e. \$15 collection fee for delinquent bills.
- f. \$20 returned check fee.
- g. \$75 connection fee for mobile trailers or \$25 if service line, meter loop, etc. are in place.

Dema provided cost support for each of these charges to show that they will cover the cost of providing the service only. Staff, therefore, recommends that the above charges be approved.

Retail Rates

Staff recommends the following retail rates based upon the adjustments herein:

0 - 1 Mcf                      \$10.35

All over 1 Mcf              9.15/ Mcf

The recommended retail rates will produce the level of revenues recommended.

D. Signatures

Tammy Cheatham  
Prepared By: Tammy Cheatham  
Public Utility Financial  
Analyst  
Gas and Electric Revenue  
Requirements Branch  
Rates and Tariffs Division

Joan H. Carroll  
Prepared By: Joan H. Carroll  
Public Utility Rate  
Analyst, Principal  
Gas and Electric Rate  
Design Branch  
Research Division

DEPRECIATION SCHEDULE FOR RIGHT BEAVER AND DEMA GAS

	1984	1985	1986	1987	1988	1/1/89 - 4/30/89	5/1/89 - 7/30/89	8/1/89 - 12/31/89	1990
ETERS	4500	4500	4500	4500	4500	4500	4500	4500	4500
ETER INSTALL	7700	7700	7700	7700	7700	7700	7700	2250	2250
AINS							18185	18185	18185
AINS								12575	12575
DEPRECIATION	225 385	225 385	225 385	225 385	225 385	75 128	56 96 152	94 47 253 175	225 113 606 419
CC. DEPRECIATO	610 (1)	1220	1830	2440	3050	3253 (2)	3557 (3)	1977 (4)	3340 (5)

1) STRAIGHT LINE DEPRECIATION OVER 20 YEARS FOR YEARS 1984 - 1988.

2)  $4500/20 \times 4/12 = 75$   
 $7700/20 \times 4/12 = 128$   
203

3)  $4500/20 \times 3/12 = 56$   
 $7700/20 \times 3/12 = 96$   
 $18185/30 \times 3/12 = 152$   
304

4) METER INSTALLATIONS TAKEN OFF BOOKS 7/31/89:

ACCUMULATED DEPRECIATION 2149 (NET OF UTILITY PLANT OF \$7700  
EXTRAORDINARY RETI 5551 AND EXT RET OF \$5551)  
  
UTILITY PLANT 7700

$4500/20 \times 5/12 = 94$   
 $2250/20 \times 5/12 = 47$   
 $18185/30 \times 5/12 = 253$   
 $12575/30 \times 5/12 = 175$   
569

5)  $4500/20 = 225$   
 $18185/30 = 606$   
 $12575/30 = 419$   
 $2250/20 = 113$   
1363

<u>Utility Plant</u>	<u>Acquired</u>	<u>Service Life</u>	<u>Years In Use</u>	<u>Remaining Life</u>
Meters	4/27/89	20	1.50	18.50
Meter Installation	8/08/89	20	1.25	18.75
Mains	4/27/89	30	1.50	28.50
Mains	8/08/89	30	1.25	28.75
Sum of Years Remaining Life				94.50
Average Remaining Life				23.63

Approximately 24 years

Appendix B  
Dema Gas Co., Inc.  
Gas Plant Acquisition Adjustment

Plant In Service	\$30,385 <sup>1</sup>	
Accounts Receivable	3,600 <sup>2</sup>	
Gas Plant Acquisition Adjustment	3,479 <sup>3</sup>	
Accumulated Depreciation		\$ 3,253 <sup>4</sup>
Cash		34,211 <sup>5</sup>

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- <sup>1</sup> Includes items of plant through 4/30/89 per detail, see Appendix A.
- <sup>2</sup> Per data response to Order dated September 11, 1991.
- <sup>3</sup> The acquisition adjustment amount is the balance remaining after the plant, net of accumulated depreciation, is netted against the amount paid for the system.
- <sup>4</sup> The accumulated depreciation total includes all depreciation accruing to the transferred assets up to April 30, 1989. See Appendix A.
- <sup>5</sup> Per Case No. 89-100.